

# **EXHIBIT C**



Puerto Rico

## New Commonwealth Fiscal Plan Draft Skirts Oversight Board Directives on Pensions, Medicaid Funding; Incorporates Additional \$19.77B in American Rescue Plan Funding

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### Relevant Document:

#### [Commonwealth Fiscal Plan 2021 2nd Draft](#)

The administration of Gov. Pedro Pierluisi's second draft fiscal plan to be submitted to the PROMESA oversight board does not follow an oversight board directive to incorporate pension reforms mandated by the commonwealth [plan of adjustment](#) filed on March 8. While the new draft revises downward its Medicaid funding projections, it also skirts another oversight board directive to include only legislated Medicaid funding in fiscal plan projections, with the new draft assuming the Puerto Rico Medicaid program "will be properly federally funded."

The new draft fiscal plan does follow the oversight board's instruction to incorporate projected funding Puerto Rico will receive under the recently [enacted](#) \$1.9 trillion [American Rescue Plan](#). The document projects Puerto Rico will receive a total \$19.77 billion under the law, which is in line with [oversight board estimates](#) that Puerto Rico will receive a total \$45 billion in Covid-19 relief funding.

The second fiscal plan draft, which was submitted to the oversight board late Friday, March 26, responds to a [March 15 oversight board violation letter](#) that cited the need for "certain significant revisions and additional supporting information" before the administration's original fiscal plan draft could be certified as compliant with the requirements of the PROMESA law.

The new draft continues to state that defending public sector pensioners is a "central pillar" of the Pierluisi administration's public policy, asserting that public pensioners "have already suffered enough" through prior benefit reductions and other concessions over the last decade.

In the face of the oversight board's continued attempt to institute pension reforms (including cuts to and benefit freezes in the Teachers Retirement System and the Judiciary Retirement System), **the commonwealth government "will take all steps to mitigate the potential legal risks to pension payments that will arise in the Commonwealth's Title III proceedings,"** according to the new fiscal plan draft (emphasis added).

"In that regard, the Government will prioritize budgetary support of pensioners, even in the face of court imposed pension cuts or the freezing of benefit accruals, in order to ameliorate the harsh effects of aggressive pension cuts. The Government will use the Benefit Restoration Mechanism and the Pension Reserve Trust to support the affected pensioners to the maximum extent possible. Moreover, if necessary, the Government will prioritize required budgetary allocations to provide adequate funding to cushion and offset any pension cuts. The Government will continue to seek additional sources of funding for any pension cuts as may be imposed by the Oversight Board and Title III Court in the Commonwealth's Title III proceeding and to further collateralize the Pension Reserve Trust," the fiscal plan draft states.

The oversight board also directed the commonwealth to include in its fiscal plan draft only currently legislated Medicaid funding, which declines sharply after Sept. 30, when current supplemental Medicaid funding expires. Getting additional supplemental Medicaid funding authorized by Congress is a [priority](#) of Pierluisi and Resident Commissioner Jenniffer González.

Pierluisi's first fiscal plan draft assumed Puerto Rico would "receive state-like treatment for purposes of obtaining Medicaid federal funding which represents an ~83% federal matching level for its largest Medicaid population." The new draft assumes "the Puerto Rico Medicaid program will be

properly federally funded” and receive incremental funding allowing the commonwealth “to provide all the necessary benefits to improve the coverage and affordability of the health system and to improve the island’s competitiveness by better balancing individuals and corporate tax burdens.”

The new draft projects Puerto Rico will receive a total \$25.17 billion in Medicaid funding from fiscal 2022 through fiscal 2026, versus the first fiscal plan draft, which projected \$26.37 billion over the same time period. The document states that it still assumes that Puerto Rico will receive long-term Medicaid federal funding parity at an 83% federal medical assistance percentage, or FMAP, but states that the government believes that even if it were not afforded the 83% FMAP treatment, it would still receive uncapped federal funding at an FMAP at or above its statutory rate of 55%. The new draft states that the 83% assumption results in a projection of \$5.4 billion in Medicaid funding for fiscal 2025, versus uncapped funding at 55%, which would result in a fiscal 2025 Medicaid funding projection ranging from \$2.5 billion to \$3.5 billion, depending on how many new Medicaid initiatives the commonwealth chooses to implement.

The new fiscal plan draft also retains the removal of scheduled reductions to commonwealth municipal appropriations and the University of Puerto Rico’s operating subsidy from the commonwealth and retains Pierluisi administration priorities such as a new uniform remuneration plan at an expected \$53 million annual cost and a proposed \$4 billion in additional investments across agencies to cover a range of priorities.

In its violation letter, the oversight board requested “working sessions” be scheduled between commonwealth and oversight board officials to explain the “assumptions and rationale” behind these initiatives. The oversight board also called for a meeting with the commonwealth and its technical advisors to “help clarify technical assumptions and calculation methodologies” used to develop the fiscal plan’s baseline macroeconomic trajectory and population projection.

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